1989 Update on Seven Eleven Stores

We have received figures for The Southland Corporation for 1988. This information was taken from their 10K dated December 31, 1988. Full copies of the report are available from Southland or from the Securities and Exchange Commission.

Basis for Profit Per Day Determination -

The Southland Corporation operated 6,910 7-Eleven convenience stores on December 31, 1988. This is 908 less stores than they operated on December 31, 1987.

We have computed store days for 7-Eleven to be 2,695,224 store days. This is for the 6,910 stores operated all year and the 908 stores for half a year.

We have not computed average daily store sales. The 10K states on page 28 that convenience store merchandise sales increased 3.7% for the year. If our figures are correct for last year, average 7-Eleven store sales would be $2,227 this year and sales growth was $79 per store per day. They state this is a slight increase in real store sales growth.

Pretax Loss Computation:
Total pretax loss for Southland for 1988 = $397,132,000.
93.1% of total sales were from convenience stores. If we assign loss on the same basis as sales, the convenience store pretax loss was $369,729,890. This number divided by store days of 2,695,224 equals a pretax loss of $137.17 per store per day for 1988.

Aftertax Loss Computation:
Total aftertax loss for Southland for 1989 = $216,231,000.
If we assign loss on the same basis as sales, the convenience store aftertax loss was $201,311,000. This number divided by store days of 2,695,224 equals an aftertax loss of $74.69 per store per day for 1988.

During 1988, the Company's capital expenditures totaled $144 million. Of this amount, $13 million was for capital leases and $60 million was expended for Cityplace Tower, the Company's new headquarters building. Construction costs for Cityplace Tower in 1989 are estimated to be approximately $50 million. Under terms of the Credit Agreement, the Company's total future capital expenditures cannot exceed $106 million, $145 million and $125 million in 1989, 1990 and 1991, respectively. The Company believes these amounts will be sufficient to maintain its facilities and provide needed capital to meet competitive requirements.

During 1988, $26 million was used for the acquisition of 43 operating convenience stores in Las Vegas. Additional uses of cash include a $66 million payment for the purchase of the stock options outstanding at the time of the LBO and a $105 million increase in the Distribution Centers' inventory to minimize the effect of upcoming price increases.

The Company's high level of debt requires that a large portion of the cash provided by operations be used for interest payments and debt retirement.

Income Taxes

Although the Company expects improved profitability from operations, it anticipates that net losses will be generated over the next several years due primarily to the interest expense associated with the high debt levels. As a result, the Company does not expect that it will be a tax-paying entity for several years and will use a portion of these losses as carrybacks to recover taxes paid in previous years. The Company received a federal tax refund of $57 million in the early part of 1989. An additional $24 million will be available for recovery in subsequent years.

MANAGEMENT'S REVIEW OF OPERATING RESULTS - TWELVE MONTHS ENDED DECEMBER 31, 1988

The Company recorded net sales of $8.0 billion in 1988. Convenience store sales of $7.4 billion accounted for 93.1% of net sales. The sales from stores identified for divestiture are excluded from 1988 sales but are included in the first seven months of 1987. Excluding the results of these stores from both years, net sales would have increased 4.5% over last year. Convenience store merchandise sales (excluding sales from stores identified for divestiture) increased 3.7%. Real growth in average merchandise sales per store month (excluding sales from stores identified for divestiture) increased slightly for the year. Gasoline sales (excluding sales from stores identified for divestiture) were down 2.9% due to lower volume.

Other income of $40.2 million consisted primarily of area license royalties and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 21.15%. The overall convenience stores' gross margin (excluding sales from stores identified for divestiture) increased 1.02 percentage points. The merchandise gross margin increased .39 percentage points as a result of programs implemented in 1988, including increased purchasing efficiency at the wholesale level and a continuing emphasis on sales of higher-margin items. Gasoline gross profit per gallon was 11.4 cents compared to 9.0 cents last year. The unusually strong gasoline profit reflects industry conditions and certain strategic adjustments that focus on further improving profitability from the Company's gasoline marketing operations.

The ratio of expenses (selling, general and administrative, interest, contributions to profit sharing plan) to sales was 26.65%. This ratio has increased from historical levels due to higher cash and noncash interest costs, which include amortization of deferred debt issuance costs associated with the Company's new debt levels. In addition, selling, general and administrative expenses for the last five months of 1987 and all of 1988 include the amortization of the excess of cost over fair market value of the net assets acquired in the merger and other LBO-related noncash expenses.

The Company's net earnings for the year include $70.8 million from its 50% equity in Citgo's net earnings which reached their highest level since Citgo was acquired by Southland in 1983.

Due to the loss generated from the LBO, the Company recognized tax benefits of $110.1 million. The amount of the tax benefit was reduced by the tax expense associated with gains from the sale of assets, resulting in expected federal and state refunds to the Company of approximately $59 million in 1989.

MANAGEMENT'S REVIEW OF OPERATING RESULTS - FIVE MONTHS ENDED DECEMBER 31, 1987 AND SEVEN MONTHS ENDED JULY 31, 1987

Five Months Ended December 31, 1987

Net sales were $3.2 billion. Convenience store sales accounted for $3.0 billion or 94.7% of the Company's total sales. Merchandise sales in convenience stores were $2.4 billion while gasoline sales were $0.6 billion. Real growth in average merchandise sales per store month (including stores identified for divestiture) was a negative 0.5% during this period, despite improved profitability.

Other income of $14.6 million consisted primarily of area license royalties and interest income.

The Company's consolidated gross margin (gross profit divided by sales) was 21.65%. The merchandise gross margin improved compared to the five months of 1986 due primarily to the stores' more targeted merchandising efforts and the benefits derived from the Company's previous investment in new marketing programs. Gross profit per gallon of gasoline during the last five months of 1987 was 10.7 cents. The unusually strong gasoline profit reflects industry conditions and certain strategic adjustments that focus on further improving profitability from the Company's gasoline marketing operations.

The ratio of expenses (selling, general and administrative, interest, contributions to profit sharing plan) to sales was 29.45%. The large increase in this ratio is primarily attributed to significantly higher interest costs, which include amortization of deferred debt issuance costs associated with the Company's new debt levels. Certain other nonrecurring expenses including the cost to redeem all outstanding stock options, fees related to the financing of the tender offer and the loss associated with the unhedging of currency exchange agreements resulting from the monetization of the Japanese yen royalties contributed to the increase of this ratio.

The Company's net earnings for the period include $14.2 million from its 50% equity in Citgo's net earnings.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per-share data)

ASSETS

	Successor December 31	
	1988	1987
CURRENT ASSETS:		
Cash and short-term investments	$ 21,783	$ 16,090
Accounts and notes receivable	208,686	152,010
Inventories	428,098	307,370
Deposits and prepaid expenses	25,929	24,752
Business units to be divested	-	353,101
Other assets held for sale	-	283,815
TOTAL CURRENT ASSETS	684,496	1,137,138
PROPERTY, PLANT, AND EQUIPMENT	2,215,238	2,344,449
INVESTMENT IN CITGO	440,777	380,037
EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED	986,356	931,309
OTHER ASSETS	534,644	589,220
	$ 4,861,511	$ 5,382,153

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 642,095	$ 645,862
Accounts payable to related parties	50,501	59,474
Income taxes	377	589
Long-term debt due within one year (including $2,594 and $2,561 due to related parties)	527,174	627,344
TOTAL CURRENT LIABILITIES	1,220,147	1,333,269
DEFERRED CREDITS AND OTHER LIABILITIES	96,359	102,969
LONG-TERM DEBT (including $20,800 and $24,334 due to related parties)	3,787,578	3,978,902
REDEEMABLE PREFERRED STOCK, 15% Cumulative Exchangeable Preferred Stock, Series One (redemption value of $288,898)	118,850	91,288
COMMON STOCK PURCHASE WARRANTS	26,136	26,136
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, $.01 par value; 300,000,000 shares authorized, 205,041,676 and 200,000,000 shares issued and outstanding	2,050	2,000
Additional capital	18,318	14,587
Accumulated deficit	(407,927)	(166,998)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	(387,559)	(150,411)
	$ 4,861,511	$ 5,382,153

See notes to consolidated financial statements.

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per-share data)

	Successor		Predecessor	
	Year ended December 31, 1988	Five months ended December 31, 1987	Seven months ended July 31, 1987	Year ended December 31, 1986
REVENUES:				
Net sales (including $347,973, $153,976, $261,753 and $390,833 in excise taxes)	$ 7,950,284	$ 3,211,018	$ 4,865,436	$ 7,782,664
Other income	40,213	14,616	33,938	40,312
	7,990,497	3,225,634	4,899,374	7,822,976
COST OF SALES AND EXPENSES:				
Cost of goods sold (including $834,455, $385,847, $632,082 and $983,609 from related parties)	6,268,854	2,515,777	3,853,040	6,072,019
Selling, general and administrative expenses	1,543,090	775,125	946,491	1,531,931
Interest expense (including $2,479, $1,779, $1,976 and $3,683 to related parties)	560,269	163,515	45,081	57,291
Contributions to Employees' Savings and Profit Sharing Plan	15,416	6,926	10,844	21,406
	8,387,629	3,461,343	4,855,456	7,682,647
	(397,132)	(235,709)	43,918	140,329
GAIN FROM SALE OF HALF-INTEREST IN CITGO	-	-	23,254	114,732
EARNINGS (LOSS) BEFORE INCOME TAXES, EQUITY IN EARNINGS OF CITGO AND BUSINESS UNITS TO BE DIVESTED	(397,132)	(235,709)	67,172	255,061
INCOME TAXES (BENEFIT)	(110,060)	(71,785)	31,410	24,491
EQUITY IN EARNINGS (LOSS) OF CITGO (pretax in 1986)	70,841	14,177	39,131	(51,993)
EARNINGS (LOSS) BEFORE BUSINESS UNITS TO BE DIVESTED	(216,231)	(149,747)	74,893	178,577
EARNINGS OF BUSINESS UNITS TO BE DIVESTED (net of income taxes of $11,456 and $21,009)	-	-	15,185	21,868
NET EARNINGS (LOSS)	(216,231)	(149,747)	90,078	200,445
ACCRETION TO REDEMPTION VALUE OF REDEEMABLE PREFERRED STOCK	(6,706)	(233)	-	-
PREFERRED STOCK DIVIDENDS:				
Series A	-	(88)	(5,822)	(10,000)
Redeemable	(20,856)	(580)	-	-
NET EARNINGS (LOSS) APPLICABLE TO COMMON SHARES	$ (243,793)	$ (150,678)	$ 84,256	$ 190,445
EARNINGS (LOSS) PER COMMON SHARE:				
Before business units to be divested:				
Primary	$(1.22)	$(.75)	$1.42	$3.51
Fully diluted	$(1.22)	$(.75)	$1.42	$3.49
Net earnings (loss) applicable to common shares:				
Primary	$(1.22)	$(.75)	$1.74	$3.96
Fully diluted	$(1.22)	$(.75)	$1.74	$3.91

See notes to consolidated financial statements.